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March 29, 2004

Mary L. Cottrell, Secretary
Department of Telecommunications and Energy
One South Station
Boston, MA 02110

RE: Order Opening Investigation Regarding the Assignment of Interstate Pipeline Capacity, D.T.E. 04-1

Dear Secretary Cottrell:

New England Gas Company (the "Company") is pleased to submit the following comments in reply to those filed in this proceeding on March 1, 2004 with the Department of Telecommunications and Energy (the "Department"). The comments filed on March 1, 2004 (the "Initial Comments") were in response to the Department's January 12, 2004 order (the "Order") opening an investigation into the assignment of interstate pipeline capacity.¹ Based on the Initial Comments filed in this proceeding and lack of a "workingly competitive" upstream capacity market, the Department should conclude at this time that it should not alter its directives reflected in Natural Gas Unbundling, D.T.E. 99-32-B (1999).

First and foremost, the Initial Comments demonstrate that little has changed since the Department's D.T.E. 99-32-B order regarding the lack of competition in the upstream capacity market. Only Amerada Hess has asserted that the competitiveness of the upstream capacity market has improved since the Department's order in D.T.E. 98-32-B (see Amerada Hess Initial Comments at 11, 17). However, contrary to the assertions of Amerada Hess, the factors it cited do not represent improved competitiveness in the upstream capacity market.

For example, the assertion of Amerada Hess that expanded gas supplies

1 In addition to the Company, initial comments in this proceeding were filed by: the Amerada Hess Corp. ("Amerada Hess"); the Massachusetts Attorney General; Bay State Gas Company; The Berkshire Gas Company; Blackstone Gas Company; Energy East Solutions, Inc. ("Energy East Solutions"); KeySpan Energy Delivery New England; NSTAR Gas Company and Fitchburg Gas and Electric Light Company.

in the region are evidence of a workably competitive market ignores the fact that this additional supply largely has been used to serve new demand that has been created since the Department's order in D.T.E. 99-32-B. Moreover, the additional supply merely has kept up with new demand, and therefore, is not available in sufficient amount to provide the necessary liquidity to the market to facilitate a vibrant competitive marketplace. Moreover, Amerada Hess' reliance on the availability of gas supply in the secondary market during periods of peak demand as evidence of a workably competitive market is inapt. The availability of such supply, and the high price that it warrants in the market, is merely reflective of the economics of providing supply during periods of high demand on a system with capacity constraints. In short, the Department cannot rely on the factors cited by Amerada Hess as evidence of a workably competitive upstream capacity market, particularly if the evidence of such a market is a pre-condition to relieving LDCs of their obligation to plan for and serve customers.

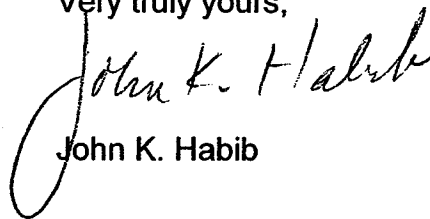
Given the market constraints that currently exist, the Company is willing to work with interested parties to streamline the capacity-assignment process. However, several of the suggestions offered by Amerada Hess and Energy East Solutions to streamline the process may be inappropriate for Massachusetts or do not require the formal involvement of the Department. For example, Energy East Solution's suggestion to convert to a path approach in Massachusetts ignores the fact that path approaches adopted in other states were designed specifically to work within the regulatory framework of such states. Rather than adopt wholesale the approaches of other states, the Department would need to evaluate proposed changes to determine where those changes are in harmony with the regulatory framework that it has developed for Massachusetts. In addition, Amerada Hess's proposal to change imbalance penalties would undermine the LDCs ability to maintain system integrity during periods of peak demand and thus, this proposal should not be considered a viable option. Finally, other recommendations made in the Initial Comments to streamline the capacity assignment process, e.g., to standardize the holiday period nomination deadlines, can be accomplished without the need for formal Department action.²

Accordingly, the Department has not received adequate information in this proceeding to support a conclusion that the upstream capacity market is workably competitive. As noted herein, the Company is willing to work with interested parties to continue the process of identifying means to streamline the capacity assignment process in order to work toward the goal of a workably competitive market. However, the Department should not seriously consider recommendations to have the LDCs commence an effort to de-contract capacity

2 The Model Terms and Conditions allow some discretion with regard to implementing nomination procedures during holidays, i.e., nominations on weekends, holidays and non-business hours must be accommodated on a "best-efforts basis." See Section 11.3.3 and 12.3.4. Accordingly, the Department can and should allow interested parties to develop a standardized approach to such nominations without changing the Model Terms and Conditions.

until a workably competitive market actually exists in Massachusetts.

Very truly yours,

A handwritten signature in black ink, appearing to read "John K. Habib". The signature is written in a cursive style with a large, looping initial "J".

John K. Habib